## "*Appreciation and Interest;*" *A Rejoinder*.

In justice to the readers of Mr. Powers' review of my "Appreciation and Interest," * attention should be called to the fact that the reviewer has failed to understand the methods and conclusions which he criticises. The following are patent instances:

1. The interest realized to London investors in the gold and silver government bonds of India differed, prior to 1875, by two-tenths of one per cent. I allow one of these tenths for the trouble and expense of converting rupee interest bills into pounds sterling. Mr. Powers' comment is: "The halving of this amount on the assumption of remote prevision seems unwarranted and is uncomfortably suggestive." He would ascribe *both* tenths to "friction of exchange" (equivalent to a commission of 5 per cent on the income from the bonds!). If he had examined page 51, he would have noted that the extra tenth is there thrown into the balance simply to make the result a round number. My conclusion is therefore *totally unaffected* by the "halving." Mr. Powers omits to state that this "halving" (had it really mattered) would have made a difference of but one *fourteenth part* in the final result.

2. "But what shall be said when silver bonds payable on three months' notice are compared with gold bonds running fifty or sixty years? Is there nothing in this permanency of investment calculated to tempt capital and lower the rate of interest? It is difficult to excuse the omission of a factor which is itself sufficient to account for the major part of the difference in the interest rate." The omission was not made. Whatever preference "permanency of investment" gave the gold bonds existed before 1875 as well as after. By casting out the *total* difference of interest (two-tenths) existing before 1875 from the difference of interest existing afterward, any effect of a difference of "permanency" must have been eliminated. Mr. Powers, in his anxiety to controvert me at two different points, does not observe that his own claims controvert each other. By previously ascribing all of the two-tenths to "friction of exchange," he left no room for the influence of "permanency of investment," much less for "the major part [over *four*-tenths] of the difference in the interest rate" after 1875.

3. "The conclusion drawn from a comparison of interest in gold and silver using countries is certainly strained." From such a comparison I carefully refrained. I compared the *changes* in interest in the two sets of countries (p. 64).

4. "But that which vitiates the conclusion most of all is the neglect of the time factor. . . The currency bonds in the first comparison

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were to run ten years longer than the coin bonds." The "time factor" and the elimination of the effect of difference in duration of the bonds were *especial* objects of calculation (pp. 41–45).

5. Mr. Powers misconstrues my use of "labor interest." I expressly disclaimed adherence to the labor standard. Wages were employed only tentatively and as an index of money incomes in general (pp. 72, 74). My quantitative conclusions rested, not on wage statistics, but on Mr. Bowley's income statistics (p. 72). These, by the way, lend no support to Mr. Powers' apparent assumption that a rise of wages takes place at the expense of profits.

6. "But when the author asserts that retail prices should be considered instead of wholesale, and that rent, labor and services should be included as forming part of the family budget, he betrays a total ignorance (or neglect) of the real relation between prices and debts." Mr. Powers has mistaken negative criticism of one system of index numbers for positive approval of another. I did not propose to take the "domestic purchasing power" as a measure of the value of money. In order to obtain the latter, we must know, as I particularly explained, a second item, viz., money incomes (pp. 72, 82), and in this item are included the effects of all influences which Mr. Powers seems to think I have omitted, viz., the influence of a change of wages and wholesale prices on the entrepreneur's profits, *i. e.*, his *income*.

7. Referring to risk of appreciation, Mr. Powers states: "Doubtless risks incurred must be borne, but should we or should we not by our collective action seek to minimize those risks?" Certainly, and so I stated, even adding that *bimetallism* would probably tend to reduce risk (pp. 86–87).

8. "When it is proposed to farther eliminate risk, the reminder that the individual must not escape his contractual obligations is perniciously irrelevant, an effort to side-track discussion which is as unworthy as it is unacademic." Mr. Powers is mistaken both as to the "effort" and as to the fact. The "reminder" was not mentioned in reference to proposals to reduce future risks (p. 86) but in reference to proposals to scale existing debts (pp. 83–84).

9. "But the climax is yet to come. The gold standard is not to be regarded as favorable to the creditor, because no man knows whether under it prices will continue to fall or not, let alone all question of amount. Indeed! Then how about this much assumed foresight by means of which men were to forestall these changes?" I never claimed that anybody ever fore*knew* fluctuations in prices; my statistics showed only a speculative foresight. No one denies that foresight exists on the Stock Exchange, but this does not enable us to foretell whether the bulls or bears will lose to-morrow. If we could foretell

this the bulls and bears could do it too, and the losses would not occur (p. 85).

10. Mr. Powers even misquotes my main conclusion from the statistics which he criticises. This was that, in England, the debtor's loss during the last twenty years amounted to two-thirds of one per cent per annum subject to a possible error of one-third of one per cent. This result was explained and stated carefully in many passages (pp. 52, 72, 73, 80). Twice it was thrown into the compact form, familiar to statisticians, $2/3 \pm 1/3$ per cent (pp. 73, 80). At Mr. Powers' hands this becomes "from 1/3 to 2/3 per cent"!

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